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FROM THE U.S. MISSION TO THE UN AGENCIES IN ROME

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SUBJECT: FAO FINANCE COMMITTEE: PROGRAM OF WORK AND BUDGET

Summary

1. With the biennial conference scheduled for the end of 2005, one of the Finance Committee's more important discussions was over the program of work and budget for 2006/7. The Secretariat, as usual, had prepared a "Summary Programme of Work and Budget" (SPWB) document, which was intended to provide a basis for Finance and Program Committee discussions that, in turn, would provide initial input for the final "Programme of Work and Budget" publication that will be issued during the summer. The SPWB included the three budget scenarios requested at the last Conference: zero nominal growth (ZNG), zero real growth (ZRG), and real growth (RG). The Secretariat, as would be expected, supported RG.

2. The purpose of this consideration, however, was neither to debate nor issue a recommendation on a budget scenario. This sitting was intended to discuss PWB methodology and programs, to outline the estimated implications each scenario would have on the institution, and to seek approval for various budget requests that would be made, regardless of scenario. In the last category were two issues of importance to us: the manner miscellaneous income is handled in the budget, and financing after cost medical benefit obligations.

3. This is the first cable on the May 9-13 FAO Finance Committee meeting.

Budget: Scenarios

4. The budget discussion had somewhat fewer emotional interventions on the organization's dwindling resource base than we saw at the last conference. An important reason for this was the Program (Dutch) and Finance (Peru) chairmen's efforts to avoid any debate on resources, per se, in favor of discussion on the implications of the program and budget process. Nevertheless, the G77 pushed an effort through the meeting of the joint committees to have the secretariat revise its real growth scenario to a 9.25

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percent growth estimate. The OECD group made it clear that asking for such an unrealistic real growth estimate was self-defeating for those who promoted it. However, the G77 persisted, probably as a face saving effort, since the US's and Japan's continued support for a ZNG scenario made it clear that RG was not, in the end, a viable option.

5. In its presentation the Secretariat noted that since 1994, it had succeeded in finding in the biennial budget \$120 million in savings, and it was difficult to find a great deal more. Nevertheless, the adoption of a ZNG budget in 2006/7 would require another real cut of \$43 million. This would entail a further loss of 190 positions, following a reduction of 232 posts in the current biennium. Severance and relocation costs were estimated at an additional \$10 million to what is included in the current ZNG scenario. (In response to the USDEL request, the Secretariat provided a single table budget comparison of the three scenarios. We are emailing it to the Department. Also in response to USDEL request, the Secretariat elaborated the use of arrears to cover 2004/5 redeployment costs, noting that of the 232 posts abolished, 83 posts were already vacant, and 60 posts were occupied by incumbents reaching retirement age before the biennium. Of the remaining 89, 58 were redeployed and 31 received agreed

termination packages that ranged from 12-18 months salary, among other costs.)

Budget: Misc. Income

16. FAO's past budget practice has been to reach agreement on the budget, then subtract "miscellaneous income" from the needed appropriation, and finally to distribute the net figure for assessed contributions. (Miscellaneous income includes assorted receipts, such as rental of conference and office facilities and

investment earnings. It is estimated at \$9.2 million in the 2004/5 budget.) The Secretariat claimed that this is not a common practice in other UN organizations and that given the large and increasing budget deficit, it is no longer appropriate. The secretariat therefore requested members to "fully fund the budget request" by assessing contributions equal to the budget level.

17. A large Committee majority supported the request. Without talking points on miscellaneous income, USDEL did not take a position, but refused to support a Committee report in support of the proposal. The report's wording, instead, noted that "many members expressed support for the proposal," as it forwarded the matter to the Council.

Budget: After Service Medical Costs (ASMC)

18. In the September Finance Committee meeting the Secretariat had sought committee support for its

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proposal to fully fund ASMC amortization at \$30 million per biennium. A decision was postponed when USDEL requested more than one option for covering the amortization. In the May session the Secretariat provided the requested options paper.

19. Two important points came out in the paper and the subsequent discussion. First, all UN agencies were struggling with the issue, and FAO was one of the few to have actually started to deal with it. A UN study on how to fund the obligation was underway. And second, the amount necessary to fund ASMC was based on an actuarial estimate made on December 31 of each conference year. There were early indications that staff medical costs were inflating faster than expected, and therefore the full amortization estimate available on December 31, 2005, could require even more than the \$30 million now under consideration.

110. To USDEL's suggestion that FAO await the UN report, the Secretariat responded that the UN General Assembly had been expecting the results of this study for two years. The delay was essentially due to a lack of options. The obligation was a legal one that must be covered, and the cost of amortization in New York would be huge. That was no reason to delay confronting the problem at FAO, the Secretariat responded. Although, excluding ourselves, there was a near consensus to propose that the Council approve the full \$30 million amortization immediately, the Committee agreed to USDEL request that before reaching a proposal we see whether this year's actuarial estimate could be available during the coming summer. That would allow any eventual Conference decision to have the benefit of a current estimate.

Methodology and the Struggle to Reach a Budget

11. The major part of the SPWB discussion in both Program and Finance Committees as well as in the joint committee meeting centered on the difficulties involved in reaching agreement on the program and budget. The massive PWB volumes, the 2-3 scenario options, and the three-period plans (PWB, Medium Term Plan, and Strategic Framework) were cumbersome, time-consuming, and expensive. The Secretariat, under its new dynamic Director for Program and Budget, Manoj Juneja, said this structure was not typical of other UN organizations. He sought to streamline the process.

112. The committees agreed that the suggestion to shorten both the SPWB and PWB in length and detail in order to allow them a more user-friendly approach could be useful. The UK's suggestion of scrapping the long-term framework in favor of a more robust medium-term plan

found a good deal of support. The Program Committee discussed favorably a proposal to simplify the budget presentation process. The idea would be to reach an agreement on an indicative budget number in advance of the conference. The Secretariat would then develop a budget scenario for Conference consideration based on the already agreed overall budget figure. One possibility, for example, would be for the June Council meeting during a Conference year to agree to the budget

number. The matter was referred to the Secretariat to elaborate in a paper to be further discussed at the September Finance and Program meetings. The intention would be to reach an agreement on an improved program and budget methodology for use in subsequent biennia, not 2006/7.

Comment

¶13. The methodology discussion was important in that it shifted the focus from the immediate budget crunch toward a longer-term effort that might more effectively deal with the way the organization does its business. If done thoughtfully it could provide easier and more effective ways of matching resources to programs, and of establishing a simpler political process required for doing so.

¶14. The short-term budget issue, of course, is already upon us. Whereas there was an informal agreement among all major members to respect the purpose of this meeting by not engaging in a profitless budget scenario debate, the outline of the positions was perfectly clear. The G77 will go into the June and November Councils pushing hard for a massive real budget increase. The European Group is split mainly between a moderate real increase and a ZRG budget. The UK nominally supports ZNG but probably with add-ons, such as ASMC, removing the miscellaneous income line from the budget assessment, and providing extra funding for severance and security costs. Canada will nominally support ZNG, but its permrep says it will move in the direction of any consensus. Japan will take a hard-line position in favor of ZNG. Australia (but not likely New Zealand) will join Japan and US in support of ZNG.

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